



IDAHO ENDOWMENT FUND
INVESTMENT BOARD

State of Idaho Endowment Funds

FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

Administered by the Endowment Fund Investment Board



FINANCIAL STATEMENTS – JUNE 30, 2016
STATE OF IDAHO ENDOWMENT FUNDS

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INDEPENDENT AUDITORS' REPORT

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Idaho Endowment Funds governmental fund and governmental activities administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Idaho Endowment Funds governmental fund and governmental activities as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho Endowment Funds' basic financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules included on pages 33 and 34 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules included on pages 37-41 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2016, on our consideration of State of Idaho Endowment Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Idaho Endowment Funds' internal control over financial reporting and compliance.



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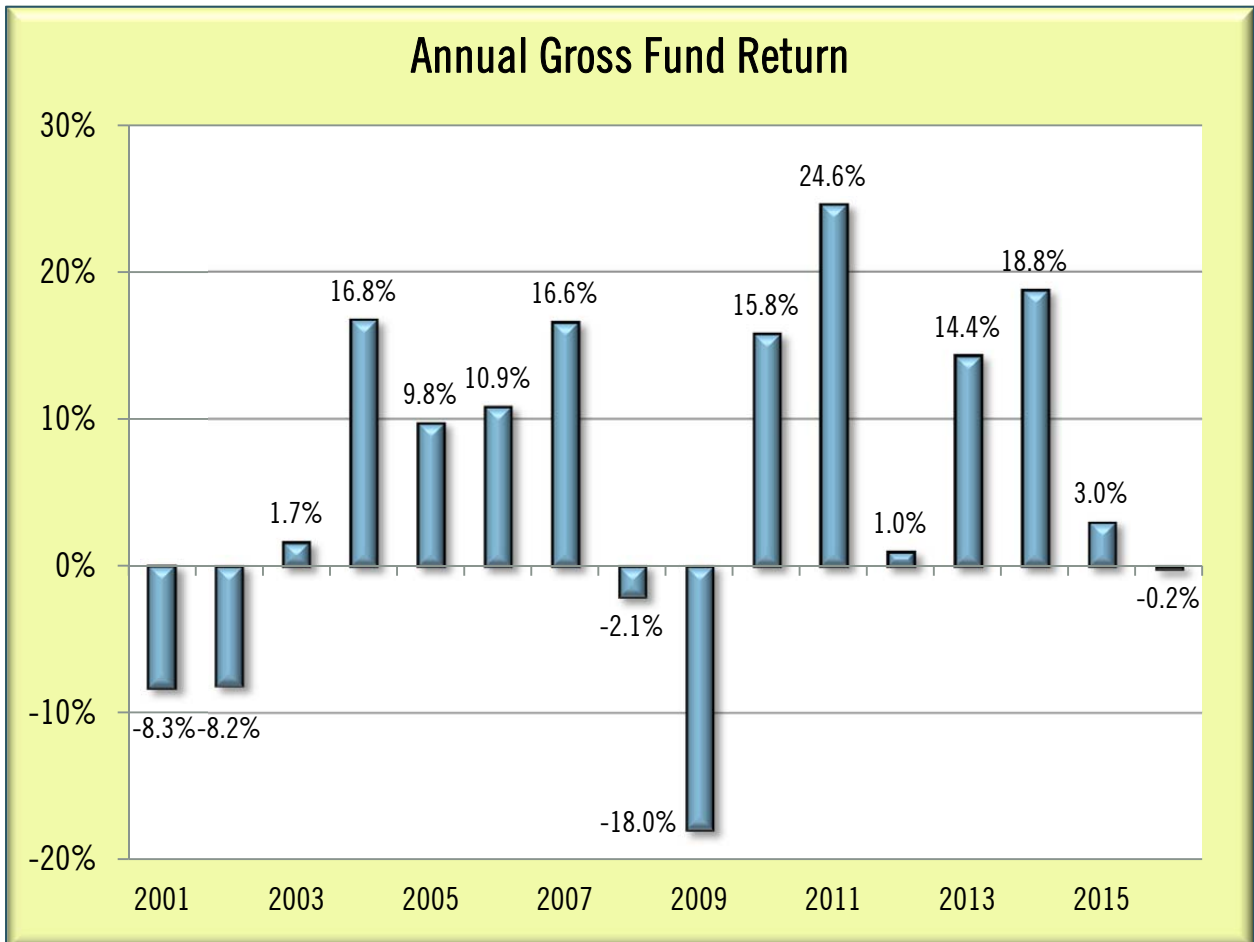
Boise, Idaho
August 31, 2016

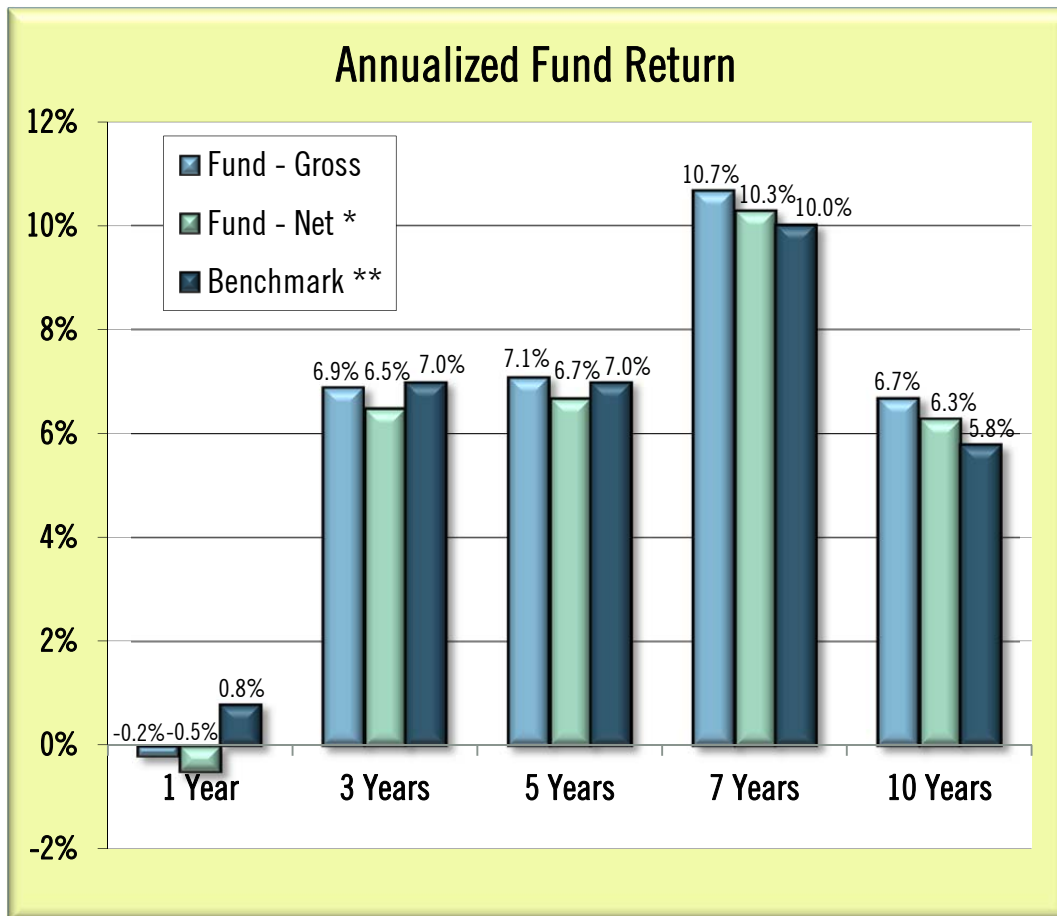
This discussion and analysis of the State of Idaho Land Grant Endowment Funds' (the Endowment Funds) financial performance provides a summary of the financial activities of the Endowment Funds, and its manager, the Endowment Fund Investment Board (the EFIB), for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

Total of the Endowment Funds

- Net position decreased \$12.4 million, a 0.7% decline from fiscal year 2015.
- Receipts to Earnings Reserves from endowment lands were \$78.2 million, a 5.9% decrease from fiscal year 2015.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 8.6% in fiscal year 2016 to \$56.4 million, from \$52.0 million in fiscal year 2015.
- Total investment return, before fees, was (0.2%) in fiscal year 2016, compared to 3.0% in fiscal year 2015 and 18.8% in fiscal year 2014.





*Net returns are net of outside investment manager fees (approximately 37 basis points in 2016). The ratio of total fiscal year 2016 EFIB expenses to year-end net assets was 43 basis points.

** Benchmark consists of 49% Russell 3000 Index, 21% MSCI All-Country World Index (ACWI) ex-US, & 30% Barclays Capital Aggregate Index.

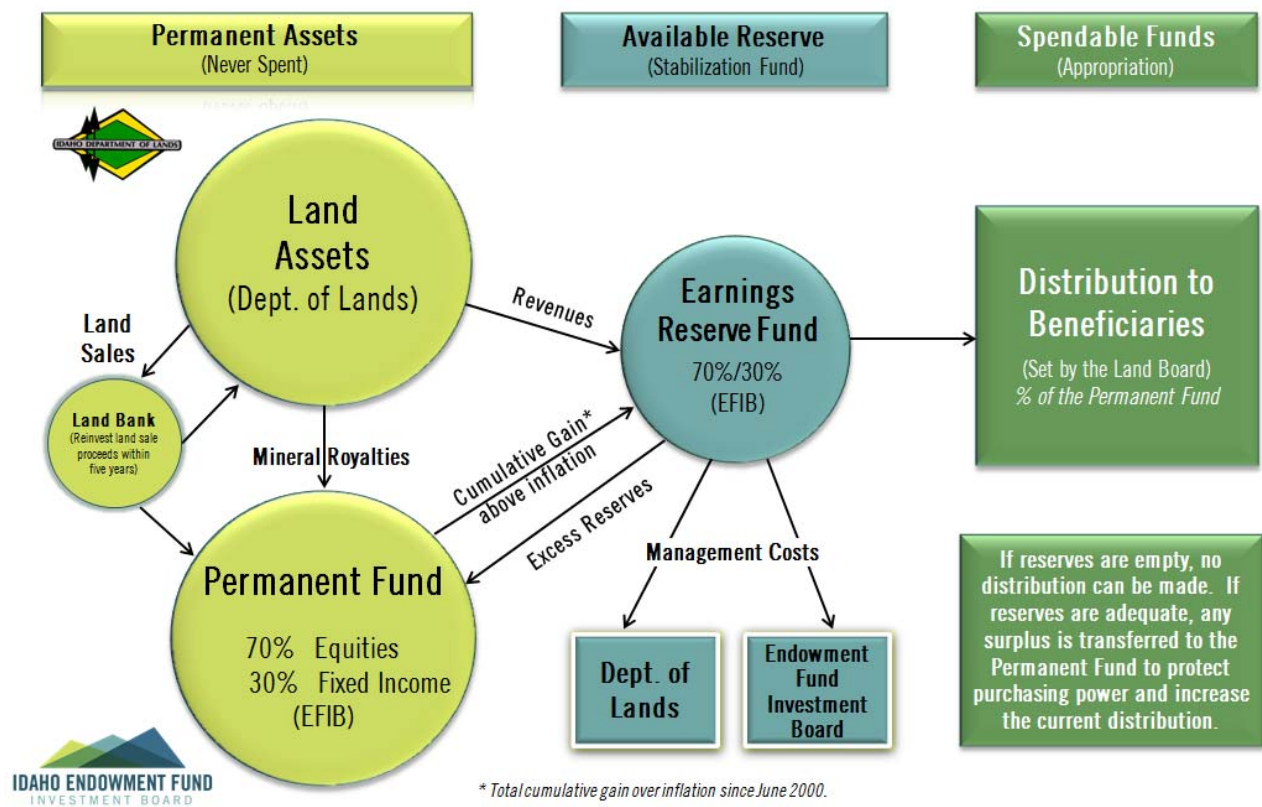
PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS

The purpose of the Endowment Funds is to manage and invest the revenues generated from the management and sale of endowment land assets of the State.

Monies are generated from lands endowed to, and for the benefit of nine different endowments: Public School, University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Juvenile Corrections Center, State Hospital North, Veterans' Home, School for the Deaf and Blind), Normal School (Idaho State University, Lewis-Clark State College), Penitentiary, University of Idaho School of Science, State Hospital South, University of Idaho and the Capitol.

The financial assets of all institutions are pooled for investment purposes and distributions are based on their proportionate share of the total pooled fund. Assets of the Public School endowment account for approximately two-thirds of the total of the Endowment Funds.

STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



ROLE OF THE ENDOWMENT FUND INVESTMENT BOARD

The Endowment Fund Investment Board was created by the 1969 Idaho Legislature and charged with management responsibility of the permanent land grant endowment funds of the State of Idaho (the State). In addition to managing the Endowment Funds, the EFIB also oversees the investments of the State Insurance Fund, the Ritter Island Endowment Fund, the Trail of the Coeur d'Alene's Endowment Fund, the Bunker Hill Water Treatment Endowment, and two Fish and Game wildlife habitat endowments.

USING THIS ANNUAL REPORT

The annual report consists of the independent auditors' report, the financial statements and the notes to the financial statements, supplemental schedules, and examination of management assertions. These statements are organized to give the reader a complete understanding of the total Endowment Funds, as a whole, along with the specifics of each individual endowment.

FINANCIAL STATEMENTS

The financial statements and notes to the financial statements are prepared by the Endowment Funds' management. The total of the Endowment Funds combines the assets of nine different endowments. The financial statements consist of a balance sheet, a statement of net position, a statement of revenues, expenditures and changes in fund balances, and a statement of activities. The notes to the financial statements are an integral part of the financial statements and provide additional information on the Fund and its operations.

DISTRIBUTIONS TO THE BENEFICIARIES

The Endowment Funds exist to provide perpetual distributions to their beneficiaries. For all endowments, except Capitol Permanent, the State Board of Land Commissioners has established a distribution policy. The current policy establishes distributions at a rate of 5% of the three-year moving average Permanent Fund balance (7% for State Hospital South) and allows for adjustments to the distributions based on factors including the amount in the Earnings Reserve and transfers to the Permanent Fund. The 2015 Idaho Legislature passed House Bill 231 to appropriate the fiscal year 2016 distributions to the beneficiary institutions. Distributions from the Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation, and in FY 2016 the Commission requested a \$400,000 distribution.

Total Fund Distributions

	2016	2015
Public School	\$ 32,758,800	\$ 31,292,400
Agricultural College	1,288,800	1,164,000
Charitable Institutions	4,500,000	3,852,000
Normal School	3,608,400	3,144,000
Penitentiary	1,872,000	1,707,600
School of Science	3,866,400	3,866,400
State Hospital South	4,562,400	3,625,400
University of Idaho	4,016,400	3,326,400
Subtotal	56,473,200	51,978,200
Capitol Maintenance	400,000	100,000
Total Distributions	\$ 56,873,200	\$ 52,078,200

Statement of Net Position

	2016	2015
Total Current Assets	\$ 1,839,201,220	\$ 1,869,238,509
Total Current Liabilities	8,825,228	26,499,097
Net Position - Permanent Funds	1,385,976,459	1,454,943,783
Net Position - Earnings Reserve	444,399,533	387,795,629
Total Net Position	\$ 1,830,375,992	\$ 1,842,739,412

Statement of Activities

	2016	2015
Program Revenues		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 2,079,637	\$ 49,136,323
Earnings Reserve Receipts	78,181,606	83,092,538
Income from Investments	37,899,767	36,527,183
Increase/Decrease in Value of Investments	(40,737,402)	16,640,375
Total Program Revenues	77,423,608	185,396,419
Program Expenses		
Distribution to Beneficiaries	56,873,200	52,078,200
Distribution for Expenses-Lands	25,328,075	27,692,642
Distribution for Expenses-EFIB	7,585,753	7,654,577
Total Program Expenses	89,787,028	87,425,419
Net Program Revenue/Change in Net Position	\$ (12,363,420)	\$ 97,971,000

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2016, land revenues to the Permanent Fund dropped to \$2.1 million because the proceeds of the ongoing sales of cabin sites on endowment land were held in the Land Bank (see Note 11) and not deposited in the Permanent Funds like they were in fiscal year 2015. The Fund's market value losses of \$40.7 million were due primarily to a modest decline in stock prices.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2016 distribution to beneficiaries of \$56.9 million represented a 9.2% increase over the previous year.

The distributions for expenses reflect the expenses paid by the Endowment Funds to the Department of Lands for their expenditures associated with the management of the lands and to the EFIB for the management of the investments of the Funds.

FACTORS THAT MAY AFFECT FINANCIAL POSITION

With the exception of the Capitol Permanent Fund, each Endowment Fund is distinct in that it has a permanent corpus and an Earnings Reserve Fund. The permanent corpus, or Permanent Fund, is to remain intact while distributions are permitted from the Earnings Reserve Fund. Both the Permanent and Earnings Reserve Funds are affected by market gains and losses of the Fund.

Under legislation passed by the 1998 Idaho Legislature, an Earnings Reserve Fund was established to pay distributions to beneficiaries and expenses of the EFIB and the Department of Lands. Most land revenue is an addition to the Earnings Reserve Fund while Department of Lands and EFIB expenses, as well as distributions to beneficiaries, are depletions. Each June 30, the proportionate change in market value is allocated to each endowment's Earnings Reserve fund as well any real gain (cumulative total return above inflation) of its Permanent Fund. These allocation methodologies are specified in *Idaho Code* Section 57-720.

On July 1, 2004, the Capitol Permanent Fund was pooled with the other endowment funds for investment purposes. Additions to that fund include revenue from its lands as well as investment income. The EFIB authorizes distributions from the Permanent Fund to the Capitol Maintenance Reserve Fund, effective July 1 of each fiscal year. In May 2016, the EFIB authorized that a distribution of \$1,375,701 be made to the Capitol Maintenance Reserve Fund in July 2016, based on 5% of the value of the Capitol Permanent Fund.

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated in House Bill 546, the following distributions to beneficiaries for FY 2017.

	2017
Public School	\$ 36,724,800
Agricultural College	1,347,600
Charitable Institutions	5,544,000
Normal School	4,262,400
Penitentiary	1,965,600
School of Science	4,708,800
State Hospital South	4,562,400
University of Idaho	4,042,800
Total	\$ 63,158,400

Even if a distribution has been approved and appropriated, it cannot be paid if there are not sufficient funds in Earnings Reserve. A measure the EFIB uses to evaluate the adequacy of reserves is the “Coverage Ratio”, (Annual Distribution divided by Reserves). Based on these coverage ratios, the EFIB believes that Earnings Reserves are sufficient to permit payment of approved distributions to all endowments in FY 2017.

By the Board of Land Commissioners’ Policy, the level of Earnings Reserves deemed adequate is five years for Charitable Institutions, State Hospital South, and Public School, six years for Normal Schools and seven years for Agricultural College, Penitentiary, School of Science and University. When reserves reach an adequate level, any excess may be transferred from the Earnings Reserve Fund to the corresponding Permanent Fund. Based on this policy, on August 16, 2016, the Board of Land Commissioners approved the transfer of excess Earnings Reserves from the Public School Fund of \$47 million (see Note 14). The transfer is expected to occur in September 2016 and is targeted to reduce Public School’s years of reserves at June 30, 2016 to approximately five years.

CHANGE IN FUND ASSET MIX

In FY 2016 the EFIB approved an 8% allocation (approximately \$150 million) to U.S. core real estate implemented through open end, commingled funds. This change was made based on an asset allocation study that suggested investment in diversified U.S. real estate would provide a steady source of income and add diversification to the overall portfolio. Additionally, real estate valuations are less frequent, so this asset provides, from a reporting basis, a smoothing of the volatility experienced in the public capital markets. With this investment, the new target asset mix for the Endowment Fund, becomes 42.5% U.S. broad equity (was 45%), 19.5% International equity (was 21%), 26% fixed income (was 30%), and 8% U.S. core real estate. The EFIB has committed to invest in two real estate funds and an initial investment of \$37.5 million was made in FY 2016. It is expected that the remaining commitment will be called in FY 2017.

NEW GASB PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 72 *Fair Value Measurement and Application* (Statement No. 72), which revises and establishes new financial reporting requirements for governments related to fair value measurements. The EFIB was already in compliance with the Statement's requirement that investments be measured at fair value, since the Endowment Fund's valuation has been based on accepted institutional valuation techniques for some time. Additional information about the valuation of the Fund's assets are found in Note 12.

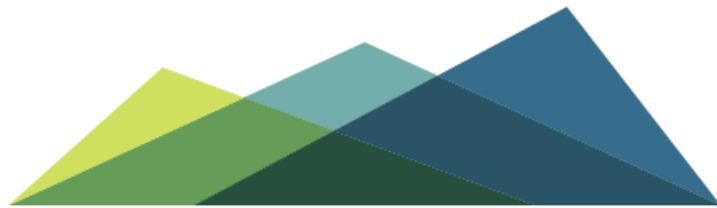
TOTAL COST OF INVESTMENT MANAGEMENT

In fiscal year 2016, the EFIB had the following expenditures to manage the Endowment Funds.

Investment Management Operating Costs	Expense	Basis Points*
Internal investment oversight	\$ 300,963	1
Internal accounting	162,057	1
Outside investment manager and legal fees**	6,795,101	37
Custody expense	333,451	2
Consultant and auditor fees	303,978	2
Subtotal	<u>7,895,550</u>	43
Less manager fees deducted from NAV**	<u>388,114</u>	
Total cash expenditures	7,507,436	
Accrual adjustment	78,317	
Total Accrual Basis Expense	<u><u>\$ 7,585,753</u></u>	

* Relative to total fiscal-year end 2016 net position of \$1,830,375,992.

** Fees for investments in mutual funds and one Real Estate fund are deducted directly from the fund by the investment manager. They are included in "Outside investment manager fees" but are not directly paid by the EFIB.



IDAHO ENDOWMENT FUND

INVESTMENT BOARD

FINANCIAL STATEMENTS
For the Fiscal Year Ended JUNE 30, 2016

STATE OF IDAHO ENDOWMENT FUNDS
**GOVERNMENTAL BALANCE SHEET AND STATEMENT OF NET POSITION –
 GOVERNMENTAL ACTIVITIES**
 FOR THE YEAR ENDED JUNE 30, 2016



Current Assets:

Cash with the State Treasurer	\$ 3,836,282
Investments, at Fair Value	1,809,741,948
Receivable for Unsettled Trades	2,489,326
Receivable From Idaho Department of Lands	11,613,915
Accrued Interest and Dividends Receivable	5,499,800
Prepaid Expenses to the Department of Lands	6,019,949
Total Assets	\$ 1,839,201,220

Current Liabilities:

Payable for Unsettled Trades	7,063,246
Investment Manager Expenses Payable	1,761,982
Total Liabilities	8,825,228

Fund Balances:

Nonspendable - Permanent Funds	1,385,976,459
Restricted - Earnings Reserve	444,399,533
Total Fund Balances	1,830,375,992

Total Liabilities and Fund Balances	\$ 1,839,201,220
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GASB 68, Accounting and Financial Reporting for Pensions, requires that governments disclose certain items, such as unfunded pension liabilities, in the Statement of Net Position (shown below). The EFIB has no such liabilities, so the balances in the Statement of Net Position are the same as the fund balances in the Governmental Balance Sheet.

Statement of Net Position:

Restricted for Permanent Trust - Nonexpendable	\$ 1,385,976,459
Restricted for Permanent Trust - Expendable	444,399,533
Total Net Position - Governmental Activities	\$ 1,830,375,992

STATE OF IDAHO ENDOWMENT FUNDS
**GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN GOVERNMENTAL FUND BALANCES AND STATEMENT OF GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016**



Revenues:	
Receipts from the Department of Lands	\$ 80,261,243
Loss from Investments	(2,837,635)
Total Revenues	<u>77,423,608</u>
Expenditures:	
Department of Lands Expense	25,328,075
EFIB Expense	7,585,753
Total Expenditures	<u>32,913,828</u>
Revenues over Expenditures	44,509,780
Other Financing Uses	
Distributions to Beneficiaries	56,873,200
Net Decrease in Fund Balance	<u>(12,363,420)</u>
Fund Balances - Beginning of Year	<u>1,842,739,412</u>
Fund Balances - End of Year	<u><u>\$ 1,830,375,992</u></u>

There were no expenses which do not require the use of current financial resources. The amount for the Change in Net Position (shown below) is the same amount as shown above in the Governmental Statement of Expenditures.

Change in Net Position-Government Activities	<u><u>\$ (12,363,420)</u></u>
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NOTE 1 - GENERAL DESCRIPTION OF THE FUNDS

The Endowment Fund Investment Board (the EFIB) is charged with the administration and investment of the Permanent Endowment and Earnings Reserve Funds of the State of Idaho (the State), comprised of the Public School, Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho Endowment Funds, as well as the Capitol Permanent Fund and Capitol Maintenance Reserve Fund, all held for the benefit of certain State institutions.

The State of Idaho Endowment Funds (the Endowment Funds) is considered part of the State financial reporting entity and is included in the State Comprehensive Annual Financial Report (CAFR). The Endowment Funds are invested according to an investment policy established by the EFIB.

The EFIB has no jurisdiction over assets held by the Idaho Department of Lands (IDL) or other agencies; therefore, the EFIB gives accounting recognition only when a transaction related to endowment land assets has been completed by IDL.

The EFIB employs external investment managers for management of the Endowment Funds.

Endowment Funds Investment Reform Legislation

On July 1, 2000, the EFIB significantly changed operations and reporting of the Endowment Funds, under legislation enacted by the Idaho Legislature in 1998.

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Endowment Funds according to policies established by the State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund is established to create a buffer to preserve the Permanent Fund balances.
- (4) Administrative costs are to be paid from earnings of the Endowment Funds instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are determined by the State Board of Land Commissioners and are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and certain receipts from IDL.

In March 2004, legislation was enacted which establishes an objective that the Permanent Funds of each endowment grow from June 2000 levels at least at the cumulative rate of inflation plus deposits. Further, it provides that any income and market appreciation of the Permanent Fund can only be transferred to the Earnings Reserve if that objective has been achieved.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The financial statements include all funds for which the EFIB is financially accountable, i.e., the land grant endowments of the State, and are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

The Endowment Funds are part of the State reporting entity based on certain GASB criteria. These statements present only the Endowment Funds and are not intended to present the financial position and results of operations of the State in conformity with generally accepted accounting principles in the United States of America.

Basis of Presentation

The Endowment Funds are accounted for and reported as a Permanent Fund as defined by GASB and use the modified accrual basis of accounting which approximates full accrual. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred. The statement of net position and the statement of activities display information about the Endowment Funds and include the financial activity of the overall reporting entity. These statements report all activities of the Endowment Funds as a governmental type activity. Given the type of assets and liabilities held by Endowment Funds, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

According to policies established by the State Board of Land Commissioners, the EFIB is authorized to invest the Endowment Funds in certain fixed income and equity investments as defined by the policy of the EFIB and consistent with *Idaho Code* Section 57-723. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor Act (Chapter 5, Title 68, *Idaho Code*), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section, the EFIB's investment policy, for most of FY 2016, specified that the Endowment Funds may be invested in equities (67% to 73% of the investment portfolio, with a target of 70%) and fixed income (27% to 33% of the investment portfolio, with a target of 30%). In February 2016, the EFIB changed the policy targets to 66% equity, 26% fixed income, and 8% real estate.

The following is a list of investments by asset class allowed by the general investment policy:

- (1) Cash Equivalents: Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
- (2) Fixed Income: US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMOs; asset backed securities; or any other fixed income security eligible for inclusion in the Barclays U.S. TIPS Index or Barclays Aggregate Bond Index.
- (3) Equities: Common stocks; convertible notes and bonds; convertible preferred stocks; American depository receipts (ADR's); stocks of non-US companies (ordinary shares); non-investment grade bonds.
- (4) Real Estate: Domestic, private, open-end, core comingled funds.
- (5) ETF's, Mutual or Collective Funds: ETF's, Mutual Funds or Collective Funds may be used for the purposes of equitizing transactional cash. ETF's, Mutual Funds or Collective Funds which invest in securities as allowed in this statement are also permitted. In all cases, investment managers will advise the MOI of their intent to utilize ETF's prior to their purchase, what specific ETF's they intend to use and the purposes they serve.
- (6) Futures, Options & certain Derivatives: As described in Futures and Options section on the following page.

Investment securities are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.

Derivatives are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include such things as futures contracts, swap contracts, option contracts, and foreign currency forwards.

In fiscal year 2016, the EFIB utilized equity and fixed income index futures for cash equitization and passive rebalancing. Index futures obligate the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange.

The table below summarizes the various contracts in the portfolio as of June 30, 2016. The notional value of these instruments is not recorded in the financial statements.

Futures	Expiration Date	Contracts	Notional Value	Unrealized Gain	Required Margin
E-Mini S&P 500 Index	Sep-16	544	\$ 56,846,447	\$ 670,318	\$ 2,614,920

Any idle monies after cash flow transactions are swept into the Idle Pool for overnight investment. The Idle Pool is managed by the State of Idaho Treasurer’s office. The funds of the Idle Pool are invested pursuant to *Idaho Code* Sections 67-1210 and 67-1210A and invested in US Treasury and US Government Agency obligations, investment grade corporate obligations, high quality commercial paper, and bank Certificates of Deposit. For performance evaluation, the fund is compared to the 180-day Treasury constant maturity rate. The Idle Pool is not rated. All investments are held in trust by a safekeeping bank and an annual audit of the Idle Pool is conducted by an independent accountant.

Expendable and Nonexpendable Net Position

The net position of the Earnings Reserve Funds is the expendable assets of the Endowment Funds. These expendable assets are used for distributions to beneficiaries and distributions for expenses of the EFIB and the IDL. The net position of the Permanent Funds is the nonexpendable assets.

Income from Investments

Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized). Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund’s average daily balance bears to the total daily balance of all participants’ funds. Income from investments is recorded on an accrual basis.

Within each endowment, income from investments is further allocated to its Permanent Fund and Earnings Reserve Fund in accordance with *Idaho Code* Sections 57-723A and 57-724A. The definition of “income” to be allocated depends on whether or not the Permanent Fund portion of an endowment fund has exceeded, at the end of the fiscal year, its “Gain Benchmark” as defined in statute.

The Gain Benchmark, as specified in *Idaho Code* Section 57-724, represents the desired or targeted value of principal or corpus in each endowment fund (excluding Capitol Permanent). It is determined by starting with the ending balance at June 30, 2000 and adding deposits (mainly extracted minerals from endowment land), the annual impact of inflation

(based on the Consumer Price Index – All Urban (CPI)), and certain reinvested income (transfers from Earnings Reserve designated by the Land Board as a permanent increase in corpus). The level of the Gain Benchmark determines whether income from investments in the Permanent Fund should be retained to offset inflation and previous losses or is eligible to be transferred to the Earnings Reserve as distributable income.

Losses in Principal of the Permanent Funds

At the end of each fiscal year, the EFIB is required to calculate whether the market values of the Permanent Funds are below the principal or Loss Benchmark level as defined in statute (June 2000 value adjusted for deposits – primarily revenues from extracted minerals and proceeds of land sales).

A loss in principal of the Public School Permanent Fund is made up as follows:

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions in the following fiscal year to the Public School Permanent Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up all losses in value to the Public School Permanent Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten-year period expires, then no legislative transfer or appropriation shall be necessary.

At June 30, 2016, the market value of the Public School Permanent Fund was \$232 million above the loss benchmark as defined by statute.

A loss in principal of the Permanent Funds other than the Public School Permanent or Capitol Permanent Funds shall be made up from Earnings Reserve Fund monies that the State Board of Land Commissioners determines will not be needed for administrative costs or scheduled distributions to each endowment's respective beneficiary.

Federal law requires that losses to the Agricultural College fund must be made up by the State, but the requirement to restore losses to that endowment has not been established in statute. As of June 30, 2016, the market value of the Permanent Fund portion of the Agricultural College endowment was \$12.3 million above the principal or Loss Benchmark level as defined in statute.

There is no statutory requirement to make up losses in the Capitol Permanent Fund, nor a requirement to calculate a Gain or Loss Benchmark.

Distributions to Beneficiaries

With the exception of the Capitol Funds, distributions to the other eight beneficiaries are authorized by the State Board of Land Commissioners and are made in equal installments on approximately the 10th of each month. Distributions to the Capitol Maintenance Reserve Fund from the Capitol Permanent Fund are authorized by the EFIB and distributed approximately July 1 of each fiscal year. Distributions from the Capitol Maintenance Reserve Fund are authorized by the Capitol Commission.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, see Note 10.

Other

Investments have risks that the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying the portfolio investments, monitoring investment grade and quality, and purchasing only high-grade or government-backed securities in fixed income portfolios.

The EFIB does not intend to use market timing as an investment strategy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.

New Financial Reporting Requirements – GASB 72

The Governmental Accounting Standards Board (GASB) issued Statement No. 72 *Fair Value Measurement and Application* (Statement No. 72), which revises and establishes new financial reporting requirements for governments related to fair value measurements. The EFIB was already in compliance with the Statement's requirement that investments be measured at fair value, since the Endowment Fund's valuation has been based on accepted institutional valuation techniques for some time. Additional information about the valuation of the Fund's assets are found in Note 12.

NOTE 3 - INVESTMENTS

Investments at June 30, 2016:

Fund Investments By Manager	Cost	Fair Value
Aberdeen Asset Management	\$ 66,350,702	\$ 73,910,247
Allianz NFJ	109,264,946	98,765,464
Barrow, Hanley, Mewhinney & Strauss	35,626,976	43,978,539
Boston Partners	88,072,831	97,834,349
Capital International	15,292,830	15,901,980
Clearwater Advisors	5,076,941	5,076,941
Deutsche Bank	36,037,970	36,037,970
Eagle Asset Management	37,039,426	44,890,509
Grantham, Mayo, Van Otterloo	15,368,104	16,600,117
INTECH	87,354,647	98,787,142
Lazard Asset Management	63,382,838	76,760,625
LSV Asset Management	81,032,311	95,623,482
Northern Equity Index Fund S&P 500	143,527,881	193,158,819
Northern Money Market Fund*	9,643,536	9,643,536
Sands Capital Management	59,320,995	85,799,990
State Street Fixed Income Index Funds	517,904,311	522,853,058
Systematic Financial Management	77,950,864	77,480,644
TimesSquare Capital Management	68,402,892	87,138,897
WCM Investment Management	112,742,215	124,925,719
Total Fund Investments	1,629,393,216	1,805,168,028
Pending Trades:		
Receivable for Investments sold	(2,489,326)	(2,489,326)
Payable for Investments purchased	7,063,246	7,063,246
Total Net Investments	\$ 1,633,967,136	\$ 1,809,741,948

* This is cash that is not allocated to an investment manager

CUSTODIAL CREDIT RISK - The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to EFIB ownership and further to the extent possible, be held in the EFIB's name. At June 30, 2016, all of the Endowment Funds' investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's name.

The State Treasurer, per the State Constitution, is the custodian of the investments of the Public School Endowment Fund. Investments for all endowment funds are held under a safekeeping agreement with the Trust Department of the Northern Trust Company.

CONCENTRATION OF CREDIT RISK – The EFIB minimizes exposure to concentration of credit risk by establishing concentration of credit risk limits in investment manager portfolio guidelines. As of June 30, 2016, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio, other than securities issued or guaranteed by the United States government.

INVESTMENT AND CREDIT RISK – The EFIB Investment Policy Statement permits investment in the following types of fixed income securities:

Cash Equivalents: Treasury bills, money market funds, short-term investment funds, commercial paper, banker’s acceptances, repurchase agreements and certificates of deposit.

Fixed Income: US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other “early tranche” CMO’s; asset backed securities; or any other fixed income security eligible for inclusion in the Barclays U.S. TIPS Index or Barclays Capital Aggregate Bond Index.

Restricted investments include interest-only (IO), principal-only (PO), residual tranche CMOs, naked options, and purchase of securities on margin and short-sale transactions.

The EFIB Investment Policy Statement further provides the following guidelines for fixed income and cash equivalent investments:

- Assets are to be invested only in investment grade bonds rated Baa3/BBB- (or equivalent) or better.
- Assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- The fixed income weighted average portfolio maturity may not exceed that of the Barclays Capital Aggregate Bond Index by more than 0.5 years.
- Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s (S&P) and/or Moody’s.

As of June 30, 2016, the Endowment Funds held \$64 million in a comingled Treasury-only money market fund rated AAAm by S&P with a modified adjusted duration of 0.2 years. This balance includes \$9.6 of general cash and \$54.4 of cash held in accounts allocated to the Funds’ bond and equity managers.

As of the fiscal year end, the Endowment Funds’ other fixed income investments had the following characteristics:

Fund Investments	Fair Value	Option Adjusted Duration	S&P Average Rating	Moody's Average Rating
Barclays U.S. Aggregate Bond Index	\$ 446,737,877	5.5	AA	Aa1
U.S. TIPS Index	76,115,181	8.2	AA+	Aaa
State Street Bond Index Fund	\$ 522,853,058	5.9	AA	Aa1

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing approximately 21% of total investments in international equities. No foreign fixed income securities are permitted except currency. The Endowment Funds’ exposure to foreign currency risk is as follows:

Investment and Country	Currency	Fair Value
Equities and Cash		
Australia	AUD	\$ 9,645,479
Canada	CAD	6,027,175
Denmark	DKK	11,407,777
European Monetary Union	EUR	37,311,239
Great Britain	GBP	44,469,053
Hong Kong	HKD	21,971,966
Indonesia	IDR	1,333,688
Japan	JPY	29,527,766
Mexico	MXN	2,139,952
Norway	NOK	2,059,157
Singapore	SGD	2,583,361
South Africa	ZAR	2,402,033
South Korea	KRW	2,333,272
Sweden	SEK	6,350,543
Switzerland	CHF	18,329,788
Thailand	THB	691,121
Total Fund Investments		\$ 198,583,370

NOTE 4 – INCOME FROM INVESTMENTS

Per *Idaho Code* Section 57-724A, once the balance of an endowment’s Permanent Fund exceeds the statutory Gain Benchmark at the end of a fiscal year, then, beginning two fiscal years later, income distributed to the endowment’s Earnings Reserve would include the Permanent Fund’s total cumulative income (interest, dividends and market appreciation/depreciation) above its Gain Benchmark, or its total real return.

All Endowment Permanent Funds have passed their Gain Benchmark and allocate the total cumulative gain or loss of their Permanent Funds according to this total real return methodology. In FY 2014, Public School was the last endowment to pass its Gain Benchmark so it began utilizing the total real return methodology in FY 2016.

The components of income from investments for FY 2016 and their allocation are shown below:

Permanent Fund Income

Endowment	Net Decrease in Fair Value	Interest & Dividend Income	Total Investment Loss
Public School	\$ (21,242,040)	\$ 19,849,577	\$ (1,392,463)
Agricultural College	(604,192)	562,894	(41,298)
Charitable	(2,333,613)	2,139,268	(194,345)
Normal School	(2,006,587)	1,850,033	(156,554)
Penitentiary	(881,360)	820,892	(60,468)
School of Science	(1,975,158)	1,829,335	(145,823)
State Hospital South	(1,829,678)	1,711,202	(118,476)
University of Idaho	(1,757,403)	1,643,075	(114,328)
Capitol Permanent	(626,840)	559,731	(67,109)
Total	\$ (33,256,871)	\$ 30,966,007	\$ (2,290,864)

Earnings Reserve Fund Income

Endowment	Net Decrease in Fair Value	Interest, Dividends and Other Income	Total Investment Loss
Public School	\$ (3,908,881)	\$ 3,611,883	\$ (296,998)
Agricultural College	(205,457)	187,674	(17,783)
Charitable	(569,641)	572,488	2,847
Normal School	(569,398)	522,616	(46,782)
Penitentiary	(271,505)	268,025	(3,480)
School of Science	(682,629)	657,867	(24,762)
State Hospital South	(638,291)	490,960	(147,331)
University of Idaho	(581,126)	544,425	(36,701)
Capitol Maintenance	(53,603)	77,822	24,219
Total	\$ (7,480,531)	\$ 6,933,760	\$ (546,771)

The components of Interest, Dividends and Other Income are shown below:

Interest, Other Income and Fees	\$ 14,917,359
Dividends	22,982,408
Total	\$ 37,899,767

NOTE 5 – CLIENT EXPENSES

In fiscal year 2016, two clients, representing three additional perpetual funds, were fully phased into the same comingled investment pool as the land grant endowments. In FY 2015 and FY 2016, the Department of Environmental Quality (DEQ) invested over \$52 million for the Bunker Hill Water Treatment Endowment and the Department of Fish and Game invested over \$17 million in two separate wildlife mitigation endowments.

In FY 2016, expenses of the EFIB were paid from the Earnings Reserve Funds and by the EFIB’s other clients. The portions paid by the other clients were paid under investment management contracts and are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2016 paid by the other clients were as follows:

Clients	Total Fees	Direct Payments	EFIB Comingled Fund Fees
State Insurance Fund	\$ 102,154	\$ 102,154	\$ -
Department of Environmental Quality	167,806	1,034	166,772
Fish & Game - Stewardship Endowment	37,779	549	37,230
Fish & Game - Trust Endowment	8,130	116	8,014
Parks and Rec - Trail of the Coeur d' Alenes	3,000	3,000	-
Parks and Rec - Ritter Island	3,000	3,000	-
Total	\$ 321,869	\$ 109,853	\$ 212,016

NOTE 6 – DISTRIBUTIONS

Pursuant to *Idaho Code* Section 66-1106, the Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions for the year ended June 30, 2016 were as follows:

Charitable Institutions

Beneficiaries	Factor	Distribution	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 1,200,000	\$ 447,355	\$ 144,711
State Juvenile Corrections Institutions Fund	8/30	1,200,000	447,355	144,711
School for the Deaf and Blind Fund	1/30	150,000	55,920	18,090
Veterans Home Fund	5/30	750,000	279,598	90,445
State Hospital North Fund	8/30	1,200,000	447,355	144,711
Total		\$ 4,500,000	\$ 1,677,583	\$ 542,668

Pursuant to *Idaho Code* Section 33-3301B, the Normal School Endowment Fund Income is distributed to the two institutions shown below. Distributions to these sharing institutions at June 30, 2016 were as follows:

Normal School

Beneficiaries	%	Distribution	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,804,200	\$ 657,155	\$ 237,441
Lewis-Clark State College, Lewiston	50%	1,804,200	657,156	237,441
Total		\$ 3,608,400	\$ 1,314,311	\$ 474,882

NOTE 7 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bonds became effective. This program, in accordance with *Idaho Code* Section 57-728 and in conjunction with *Idaho Code* Chapter 53, Title 33, currently requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State of Idaho that are issued to avoid the default of a voter-approved school district bond that has been guaranteed by the program.

Legislation was approved during the 2016 session to increase the capacity of the School Bond Credit Enhancement Program to guaranty payments on general obligation school bonds from \$200 million to \$300 million (which increases the bond principal that can be guaranteed from \$800 million to \$1.2 billion), while also raising the maximum available to any one district from \$20 million of bond principal to \$40 million.

\$466.9 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2016. Expected principal and interest payments in the coming year total \$50.9 million.

The Public School Endowment Fund would only be required to loan monies to the State to make payments on school bonds after several other potential funding sources have been exhausted. If a school district does not make timely prepayment of debt service on guaranteed bonds, the State Treasurer is required to make the payment, if possible, by intercepting monies due to that school district from the State, including General Fund payments and distributions from the Public School Endowment Fund. If these funds are not sufficient to meet the debt service payment, the State Treasurer is required to utilize any available funds from the state sales tax account. If all these sources prove

insufficient to make the payment, the Treasurer may borrow the remaining amount from the Public School Endowment Fund, at a rate of 400 basis points above one-year Treasury Bills. This loan from the Endowment Fund would be repaid by the intercept of future state funds due to the school district and other sources.

Since July 2009, the EFIB has charged an application fee to offset administrative costs and a guaranty fee that is deposited in the Public School Endowment Fund for providing the ongoing credit enhancement. Application fees for FY 2016 totaled \$3,000 and guaranty fees, included in Income from Investments, totaled \$5,370.

NOTE 8 – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the Endowment Funds. The budget for administrative expenses (personnel, operating and capital outlay) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTE 9 – MISCELLANEOUS REVENUE

By law, certain miscellaneous State revenue is required to be deposited in the Public School Permanent Fund:

- Unclaimed estates, dividends and stock certificates from Idaho corporations (Idaho Constitution Section 4 Article IX)
- Five percent of federal land sales, net of sale expenses (Section 7 of the Idaho Admission Bill)
- Anonymous political contributions in excess of \$50 (*Idaho Code* Section 67-6610)
- Unqualified election expenses of political parties paid from state income tax funds (*Idaho Code* Section 34-2505)
- Royalties arising from extraction of minerals from navigable waterways (*Idaho Code* Section 58-104)

In FY 2016, the Public School Permanent Fund received \$18,410 representing the net proceeds from the sale of federal land in Idaho. Also, in FY 2016, the Public School Permanent Fund received donations of \$308 from citizens choosing to give up their rights to certain unclaimed property. These miscellaneous revenues are included in Receipts from the Department of Lands. There were no revenues from anonymous political contributions, unqualified election expenses, escheat estates, mineral royalties or unclaimed dividends and stock certificates.

The Capitol Maintenance Reserve Fund receives a portion of the additional fees charged for the special Idaho Capitol vehicle license plate (*Idaho Code* Section 49-420A). In FY 2016, this revenue totaled \$68,450 and is included in Receipts from Department of Lands.

NOTE 10 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Endowment Fund Investment Board (EFIB) contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate. As of June 30, 2016 it was 6.79%. The employer contribution rate is set by the Retirement Board and was 11.32% of covered compensation. The EFIB's contributions were \$36,683 for FY 2016; \$36,698 for FY 2015; and \$35,966 for FY 2014.

The EFIB portion of the net pension liability was calculated and determined to be immaterial to the financial statements and the EFIB has no legal obligation to fund this shortfall. The EFIB has determined to not include the net pension liability and associated deferred inflow and outflow of resources on its financial statements. The EFIB's proportionate share of the net pension liability can be found on the PERSI website.

Pension plan fiduciary net position

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

NOTE 11 – LAND BANK

The Land Bank Fund was established under *Idaho Code* Section 58-133 to allow the State Board of Land Commissioners to hold proceeds from the sale of state endowment land pending the purchase of other land for the benefit of the beneficiaries of that endowment. These proceeds may be held for a period not to exceed five years from the effective date of the sale. Funds in the Land Bank are invested in the State Treasurer's Idle Pool and any investment earnings are added to the original proceeds. Land Bank Fund assets are not included in the balances of the Endowment Funds

since they are being held primarily for purchase of land that will be managed by IDL. The authority to acquire land using Land Bank assets rests with the State Board of Land Commissioners.

As of June 30, 2016, the Land Bank Fund balance, by endowment, was as follows:

Land Bank Fund	2016
Public School	\$ 24,865,355
Normal School	1,048,609
State Hospital South	5,945,970
Total	\$ 31,859,934

All of these balances relate to land sales made in fiscal years 2015 and 2016. If by the end of the fifth year, the proceeds from a land sale have not been spent or encumbered to purchase other land within the State, the proceeds are deposited in the Permanent Fund along with accumulated investment earnings.

NOTE 12– INVESTMENTS MEASURED AT FAIR VALUE

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 –Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement. There were no Level 3 assets to report.

STATE OF IDAHO ENDOWMENT FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016



	6/30/2016 (value before accruals)	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Cash and Cash Equivalents	\$ 64,042,022	\$ 64,042,022	\$ -	\$ -
Debt Securities				
Asset-Backed Securities	2,073,577	-	2,073,577	-
Commercial Mortgage-Backed Securities	4,915,768	-	4,915,768	-
Corporate Bonds	111,730,806	-	111,730,806	-
Government Agencies	22,067,040	-	22,067,040	-
Government Bonds	159,341,648	-	159,341,648	-
Government Agency Mortgage-Backed Securities	119,119,848	-	119,119,848	-
Govt-Issued Commercial Mortgage-Backed	2,584,862	-	2,584,862	-
Index-Linked Government Bonds	75,857,287	-	75,857,287	-
Municipal/Provincial Bonds	5,134,904	-	5,134,904	-
Total Debt Securities	502,825,740	-	502,825,740	-
Equity Securities				
Consumer Discretionary	155,104,496	155,104,496	-	-
Consumer Staples	93,448,127	93,448,127	-	-
Energy	74,518,468	74,518,468	-	-
Financials	172,448,644	172,448,644	-	-
Health Care	176,393,631	176,393,631	-	-
Industrials	129,451,524	129,451,524	-	-
Information Technology	240,749,723	240,749,723	-	-
Materials	59,749,867	59,749,867	-	-
Other	12,942	12,942	-	-
Telecommunication Services	31,299,843	31,299,843	-	-
Utilities	31,908,705	31,908,705	-	-
Equity ETFs	4,724,084	4,724,084	-	-
Total Equity Securities	1,169,810,054	1,169,810,054	-	-
Mutual Funds				
Emerging Markets Equities	32,502,097	32,502,097		
Derivatives				
Futures Contracts	670,318	670,318		
Preferred Stock Securities				
Consumer Staples	1,520,475	1,520,475	-	-
Information Technology	2,333,272	2,333,272	-	-
Total Preferred Stock Securities	3,853,747	3,853,747		
Total Investments by Fair Value Level	\$ 1,773,703,978	\$ 1,270,878,238	\$ 502,825,740	\$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Investment Trust (private)	36,037,970			
Total Investments Measured at Fair Value	<u>\$ 1,809,741,948</u>			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is described below.

NET ASSET VALUE (NAV)

Real estate investment fund - This type includes a real estate fund that invests primarily in U.S. commercial real estate. The fair value of the investment in this type has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. RREEF determines to what extent cash is available to redeem shares although in general, the fund must use all available cash flow for redemption of shares. If there is a redemption queue, cash flow that can be used to acquire new properties is restricted to the amount of redemption payments made by the RREEF Fund to satisfy outstanding redemption requests. The endowment fund receives distributions of certain income and, under limited conditions, at the discretion of the manager, the investment can be redeemed with the real estate fund.

Investments Measured at the NAV:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real Estate Funds	\$ 36,037,970	\$ 36,037,970	Quarterly	45 days
Total Investments measured at the NAV	<u>\$ 36,037,970</u>			

NOTE 13 - COMMITMENTS

For endowments other than the Capitol Funds, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2017.

	FY 2017
Public School	\$ 36,724,800
Agricultural College	1,347,600
Charitable Institutions	5,544,000
Normal School	4,262,400
Penitentiary	1,965,600
School of Science	4,708,800
State Hospital South	4,562,400
University of Idaho	4,042,800
Total	<u><u>\$ 63,158,400</u></u>

The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund, effective July 1 of each fiscal year. For FY 2017, the EFIB authorized a regular distribution of \$1,375,701, based on approximately 5% of the Capitol Permanent Fund balance.

At the end of FY 2016, the Fund had contractual commitments of \$112,500,000 to two open-end private Real Estate funds, subject to call by the funds.

NOTE 14— SUBSEQUENT EVENTS

For endowments other than the Capitol Funds, on August 16, 2016, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2018. The FY 2018 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2017 session.

	FY 2018
Public School	\$ 47,049,600
Agricultural College	1,347,600
Charitable Institutions	5,544,000
Normal School	4,262,400
Penitentiary	1,965,600
School of Science	4,708,800
State Hospital South	4,562,400
University of Idaho	4,042,800
Total	<u>\$ 73,483,200</u>

On August 16, 2016, the Board of Land Commissioners also approved a \$47,395,000 transfer from Earnings Reserves of the Public School endowment to its Permanent Fund, effective September 1, 2016.

At the Board of Land Commissioners’ discretion, transfers can either increase permanent principal (increasing the Gain Benchmark) or make up for inflation or past investment losses (with no impact on the Gain Benchmark). Since the Public School endowment ended the fiscal year at its Gain Benchmark, all of the transfer was considered an increase in permanent principal (i.e., increased the fund’s Gain Benchmark).

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements, and have issued our report thereon dated August 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Idaho Endowment Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Idaho Endowment Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Idaho Endowment Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Boise, Idaho
August 31, 2016



IDAHO ENDOWMENT FUND
INVESTMENT BOARD



SUPPLEMENTAL SCHEDULES

STATE OF IDAHO ENDOWMENT FUNDS
SUPPLEMENTAL SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE YEAR ENDED JUNE 30, 2016



	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET POSITION				
Permanent Net Position, beginning of year	\$ 954,024,905	\$ 26,252,027	\$ 86,706,663	\$ 79,299,328
Program Revenues:				
Receipts from Dept. of Lands	1,795,651	1,277	10,468	165,370
Income (Loss) from Investments	(1,392,463)	(41,298)	(194,345)	(156,554)
Total Program Revenue	403,188	(40,021)	(183,877)	8,816
Transfer to Earnings Reserve	(107,015,097)	-	-	-
Transfer from Earnings Reserve	-	935,000	18,329,000	10,850,000
Increase (Decrease) in Net Position	(106,611,909)	894,979	18,145,123	10,858,816
Permanent Net Position, end of year	847,412,996	27,147,006	104,851,786	90,158,144
EARNINGS RESERVE NET POSITION				
Earnings Reserve Net Position, beginning of year	183,626,675	10,371,540	45,966,866	36,422,030
Program Revenues:				
Receipts from Dept. of Lands	46,645,199	1,588,128	4,674,130	5,456,006
Income (Loss) from Investments	(296,998)	(17,783)	2,847	(46,782)
Total Program Revenues	46,348,201	1,570,345	4,676,977	5,409,224
Program Expenses:				
Distribution for Expenses-Lands	16,892,476	336,397	1,677,583	1,314,311
Distribution for Expenses-EFIB	4,693,286	150,268	542,668	474,882
Distributions to Beneficiaries	32,758,800	1,288,800	4,500,000	3,608,400
Total Program Expenses	54,344,562	1,775,465	6,720,251	5,397,593
Net Program Revenue	(7,996,361)	(205,120)	(2,043,274)	11,631
Transfer to Permanent Fund	-	(935,000)	(18,329,000)	(10,850,000)
Transfer from Permanent Fund	107,015,097	-	-	-
Increase (Decrease) in Net Position	99,018,736	(1,140,120)	(20,372,274)	(10,838,369)
Earnings Reserve Net Position, end of year	282,645,411	9,231,420	25,594,592	25,583,661
TOTAL NET POSITION	\$ 1,130,058,407	\$ 36,378,426	\$ 130,446,378	\$ 115,741,805

STATE OF IDAHO ENDOWMENT FUNDS
SUPPLEMENTAL SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE YEAR ENDED JUNE 30, 2016



Penitentiary	School of Science	State Hospital South	University of Idaho	Capitol	Total
\$ 38,202,358	\$ 81,123,562	\$ 82,306,145	\$ 78,853,194	\$ 28,175,601	\$ 1,454,943,783
9,593	5,287	21,741	14,150	56,100	2,079,637
(60,468)	(145,823)	(118,476)	(114,328)	(67,109)	(2,290,864)
(50,875)	(140,536)	(96,735)	(100,178)	(11,009)	(211,227)
-	-	-	-	(1,276,000)	(108,291,097)
1,449,000	7,763,000	-	209,000	-	39,535,000
1,398,125	7,622,464	(96,735)	108,822	(1,287,009)	(68,967,324)
39,600,483	88,746,026	82,209,410	78,962,016	26,888,592	1,385,976,459
15,212,393	40,727,376	23,999,358	28,508,147	2,961,244	387,795,629
1,063,187	3,648,754	11,549,396	3,488,356	68,450	78,181,606
(3,480)	(24,762)	(147,331)	(36,701)	24,219	(546,771)
1,059,707	3,623,992	11,402,065	3,451,655	92,669	77,634,835
534,040	1,552,551	1,716,944	1,185,726	118,047	25,328,075
218,022	498,150	442,980	438,050	127,447	7,585,753
1,872,000	3,866,400	4,562,400	4,016,400	400,000	56,873,200
2,624,062	5,917,101	6,722,324	5,640,176	645,494	89,787,028
(1,564,355)	(2,293,109)	4,679,741	(2,188,521)	(552,825)	(12,152,193)
(1,449,000)	(7,763,000)	-	(209,000)	-	(39,535,000)
-	-	-	-	1,276,000	108,291,097
(3,013,355)	(10,056,109)	4,679,741	(2,397,521)	723,175	56,603,904
12,199,038	30,671,267	28,679,099	26,110,626	3,684,419	444,399,533
\$ 51,799,521	\$ 119,417,293	\$ 110,888,509	\$ 105,072,642	\$ 30,573,011	\$ 1,830,375,992

STATE OF IDAHO ENDOWMENT FUNDS
 SCHEDULE OF EFIB EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2016



PERSONNEL	
Regular Employee Salaries	\$ 335,379
Board/Commission Member Salaries	1,517
Total Benefits	111,590
Subtotal Personnel Expenditures	<u>448,486</u>
OPERATING	
Audit	44,750
Other Operating Expenses	120,765
Subtotal Operating Expenditures	<u>165,515</u>
CAPITAL OUTLAY	
Subtotal Capital Expenditures	<u>3,621</u>
Total Appropriated Expenses	617,622
Less Payments Made by Other Clients	<u>(109,853)</u>
Subtotal	507,769
CONTINUOUS APPROPRIATION - Consultant, Outside Counsel, Custodial and Manager Fees**	
Callan Associates	259,228
Cox, Castle, Nicholson	71,190
Aberdeen Asset Management	482,826
Allianz NFJ	760,560
Barrow, Hanley, Mewhinney & Strauss	273,660
Boston Partners	428,047
Clearwater Advisors	66,928
Eagle Asset Management	322,278
INTECH Investment Management	486,289
Lazard Asset Management	622,816
LSV Asset Management	465,777
Northern Trust	383,585
Sands Capital Management	595,474
State Street Global Advisors	195,779
Systematic Financial Management	387,364
TimesSquare Capital Management	665,321
WCM Investment Management	744,561
Total Consultant, Custodial, and Manager Fees	7,211,683
Less Payments Made by Clients in Endowment Pool	(212,016)
Subtotal	6,999,667
Total Endowment Cash Expenditures	7,507,436
Change in Manager Fee Accrual	<u>78,317</u>
TOTAL ACCRUAL BASIS EXPENSE - Endowment Funds	\$ 7,585,753

** Fees of \$89,559, \$122,756 and \$175,799 were paid to Deutsche Bank, Capital International and Grantham Mayo respectively, on an indirect basis as deductions from Net Asset Value of their mutual funds and are not reported as EFIB expenditures.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF THE GAIN BENCHMARK
 JUNE 30, 2016



The table below summarizes the status of each endowment's Permanent Fund compared to its Gain Benchmark. See Note 4, *Income from Investments*, for more information on the methodology used to calculate the Gain Benchmark and the statutory provisions that govern its use.

When the current fund structure was established July 1, 2000, each Earnings Reserve Fund received dividends and interest (but not market appreciation) from its Permanent Fund. However, once an endowment achieved its Gain Benchmark for the first time, then any cumulative total income in excess of inflation of its Permanent Fund (including market appreciation) is transferred each year to its Earnings Reserve Fund. This new methodology for allocating total real income was implemented two years after a fund first crossed its Gain Benchmark.

All endowments, (except the Capitol) were using the total real income allocation methodology at the end of FY 2016. The Charitable Institutions, Normal School and School of Science endowments passed their Gain Benchmarks at the end of FY 2013. Public School achieved its Gain Benchmark in FY 2014 (and was the last of the endowments to do so); it began utilizing the alternative method in FY 2016. Because of the two-year time lag for implementation, the Public School endowment had a large unrecognized real gain that carried over from 2015. The unrealized gain made up losses incurred in FY 2016 to the Permanent Fund.

<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2015	555,954,750	57,898,062	-	226,089,541	839,942,353
	2016	839,942,353	1,795,651	-	5,674,992	847,412,996
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						-
Agricultural College	2001-2015	14,787,041	54,801	5,493,000	5,917,185	26,252,027
	2016	26,252,027	1,277	935,000	177,369	27,365,672
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(218,666)
Charitable Institutions	2001-2015	54,513,960	226,232	10,197,000	21,769,471	86,706,663
	2016	86,706,663	10,468	18,329,000	585,826	105,631,958
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(780,173)
Normal School	2001-2015	47,258,942	11,607,828	1,388,000	19,044,558	79,299,328
	2016	79,299,328	165,370	10,850,000	535,779	90,850,477
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(692,333)
Penitentiary	2001-2015	18,258,289	14,398	12,437,000	7,492,671	38,202,358
	2016	38,202,358	9,593	1,449,000	258,111	39,919,062
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(318,579)
School of Science	2001-2015	54,836,451	243,246	4,151,000	21,892,865	81,123,562
	2016	81,123,562	5,287	7,763,000	548,104	89,439,954
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(693,928)
State Hospital South	2001-2015	23,442,162	16,168,456	32,559,000	10,136,527	82,306,145
	2016	82,306,145	21,741	-	556,094	82,883,980
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(674,570)
University	2001-2015	42,442,536	246,956	19,192,000	16,971,702	78,853,194
	2016	78,853,194	14,150	209,000	532,764	79,609,108
<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2016</i>						(647,092)

STATE OF IDAHO ENDOWMENT FUNDS
 SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PUBLIC SCHOOL
 PERMANENT FUND INVESTMENTS
 THROUGH THE YEAR ENDED JUNE 30, 2016



Summary Schedule of Gains and (Losses) on Fair Value of Investments
 Public School Permanent Endowment Fund

Fiscal Year	Deposits to Original Corpus	Adjusted Original Corpus	Actual Ending Fund Balance	Annual Net Gain (Loss)	Cumulative Net Gain (Loss)
2000		\$ 555,954,750			
2001	\$ 1,742,339	557,697,089	\$ 511,726,709	\$ (45,970,380)	\$ (45,970,380)
2002	1,369,675	559,066,764	441,549,031	(71,547,353)	(117,517,733)
2003	2,190,629	561,257,393	436,160,540	(7,579,120)	(125,096,853)
2004	840,647	562,098,040	500,618,909	63,617,722	(61,479,131)
2005	1,551,570	563,649,610	537,181,394	35,010,915	(26,468,216)
2006	1,758,724	565,408,334	581,893,579	42,953,461	16,485,245
2007	3,358,272	568,766,606	662,500,453	77,248,602	93,733,847
2008	4,090,835	572,857,441	633,149,828	(33,441,460)	60,292,387
2009	4,201,860	577,059,301	511,571,551	(125,780,137)	(65,487,750)
2010	2,790,873	579,850,174	583,075,344	68,712,920	3,225,170
2011	3,843,950	583,694,124	714,690,423	127,771,129	130,996,299
2012	2,669,972	586,364,096	708,395,945	(8,964,450)	122,031,849
2013	2,322,465	588,686,561	792,921,747	82,203,337	204,235,186
2014	2,134,448	590,821,009	922,378,031	127,321,836	331,557,022
2015	23,031,802	613,852,811	954,024,905	8,615,072	340,172,094
2016	1,795,651	615,648,462	847,412,996	(108,407,560)	231,764,534
TOTAL	\$ 59,693,712			\$ 231,764,534	

The Adjusted Original Corpus above is the same as the Loss Benchmark as defined by *Idaho Code* Section 57-724. Any cumulative loss in the Public School Permanent Fund (vs. the Loss Benchmark) that remains after ten years must be made up by the State. At the end of FY 2016, the Fund had a cumulative gain above principal or corpus of \$232 million. See Note 2, *Losses in Principal of the Permanent Funds* for more information.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
GROSS OF FEES
PERIOD ENDING JUNE 30, 2016



Gross of Fees	FY 2016	2-Yr. Annualized	3-Yr. Annualized	4-Yr. Annualized	5-Yr. Annualized	10-Yr. Annualized
Total Plan	(0.2)	1.4	6.9	8.7	7.1	6.7
<i>Benchmark</i>	<i>0.8</i>	<i>1.9</i>	<i>7.0</i>	<i>8.5</i>	<i>7.0</i>	<i>5.8</i>
<i>Total fund benchmark: 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% BC Aggregate.</i>						
Total Fixed Income	5.8	3.6	3.8	2.5	3.6	5.2
State Street Bond Index	5.8	3.6	3.8	2.5	3.6	
<i>Fixed Income Benchmark</i>	<i>5.8</i>	<i>3.5</i>	<i>3.8</i>	<i>2.5</i>	<i>3.6</i>	<i>5.1</i>
<i>BC U.S. Aggregate Index</i>	<i>6.0</i>	<i>3.9</i>	<i>4.1</i>	<i>2.9</i>	<i>3.8</i>	<i>5.1</i>
<i>BC US TIPS Index</i>	<i>4.4</i>	<i>1.3</i>	<i>2.3</i>	<i>0.5</i>	<i>2.6</i>	<i>4.8</i>
<i>Total fixed income benchmark: 85% B.C Aggregate & 15% TIPS</i>						
Total Equity	(2.9)	0.2	7.7	10.9	8.1	6.6
<i>MSCI All Country World Index</i>	<i>(3.2)</i>	<i>(1.0)</i>	<i>6.6</i>	<i>9.2</i>	<i>6.0</i>	<i>4.8</i>
Total Domestic Equity	(0.9)	2.8	10.1	13.5	11.2	8.2
<i>Russell 3000 Index</i>	<i>2.1</i>	<i>4.7</i>	<i>11.1</i>	<i>13.6</i>	<i>11.6</i>	<i>7.4</i>
Large Cap Core	4.0	5.7	11.6	13.8	12.1	7.6
Northern Trust S&P 500 Index	4.0	5.7	11.6			
<i>S&P 500 Index</i>	<i>4.0</i>	<i>5.7</i>	<i>11.7</i>	<i>13.8</i>	<i>12.1</i>	<i>7.4</i>
Large Cap Growth	(0.8)	3.4	11.8	13.0	11.9	9.3
INTECH	5.4	6.3	12.7	13.5	11.6	8.2
Sands Capital Mgt.	(7.1)	0.3	10.5	12.2	11.8	10.3
<i>Russell 1000 Growth Index</i>	<i>3.0</i>	<i>6.7</i>	<i>13.1</i>	<i>14.1</i>	<i>12.4</i>	<i>8.8</i>
Large Cap Value	(2.3)	1.9	9.2	14.1	11.7	7.4
LSV	(1.4)	2.3	10.3	15.2	12.1	6.6
Boston Partners	(3.1)	1.6	8.2	13.1	11.3	
<i>Russell 1000 Value Index</i>	<i>2.9</i>	<i>3.5</i>	<i>9.9</i>	<i>13.5</i>	<i>11.4</i>	<i>6.1</i>
Mid Cap	(2.2)	0.8	8.7	12.6	9.6	7.4
Systematic	(3.4)	(1.9)	7.1	11.0	7.7	7.9
TimesSquare	(1.1)	3.5	10.2	14.1	11.4	
<i>Russell Mid Cap Index</i>	<i>0.6</i>	<i>3.6</i>	<i>10.8</i>	<i>14.3</i>	<i>10.9</i>	<i>8.1</i>
Small Cap	(5.6)	1.4	7.9	13.8	9.2	9.8
Eagle Asset Management	(5.5)	3.1	8.2	13.0	8.3	
Barrow, Hanley	(5.7)	(0.2)	7.6	14.4	9.7	9.5
<i>Russell 2000 Index</i>	<i>(6.7)</i>	<i>(0.3)</i>	<i>7.1</i>	<i>11.1</i>	<i>8.4</i>	<i>6.2</i>
Global Equity	(3.8)	(3.2)	4.1	6.5	4.5	
Aberdeen	(3.4)	(5.5)	2.4	5.0	3.7	
Lazard	(4.2)	(1.1)	5.8	8.0	5.3	
<i>MSCI ACWI Index</i>	<i>(3.7)</i>	<i>(1.5)</i>	<i>6.0</i>	<i>8.6</i>	<i>5.4</i>	
International Equity	(8.5)	(5.6)	2.4	5.4	0.6	3.0
WCM	3.6	3.2				
Allianz NFJ	(20.0)	(13.6)	(3.7)			
Capital International*	(12.1)	(10.0)	(3.0)	(1.3)	(5.8)	
GMO**	(7.7)	(8.5)	(1.6)	(1.6)	(5.1)	
<i>MSCI ACWI ex-US Index</i>	<i>(10.2)</i>	<i>(7.8)</i>	<i>1.2</i>	<i>4.2</i>	<i>0.1</i>	<i>1.9</i>

*Annual performance net of 0.74% mgr. fee.

**Annual performance net of 1.02% mgr. fee

The actual returns of terminated managers are included in the Total Amount and the appropriate category sub-total.

Manager Changes in FY 2016: The EFIB committed \$150 million to Real Estate funds (see Management's Discussion and Analysis pg. 8). Deutsche Bank RREEF America II and UBS Trumbull Property Income Fund were selected. As of June 30, 2016, only 25% (\$37.5 million) of the committed capital had been called (by Deutsche Bank), so no performance is reported above.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
NET OF FEES
PERIOD ENDING JUNE 30, 2016



Net of Fees	FY 2016	2-Yr. Annualized	3-Yr. Annualized	4-Yr. Annualized	5-Yr. Annualized	10-Yr. Annualized
Total Plan	(0.5)	1.1	6.5	8.3	6.7	6.3
<i>Benchmark</i>	<i>0.8</i>	<i>1.9</i>	<i>7.0</i>	<i>8.5</i>	<i>7.0</i>	<i>5.8</i>
<i>Total fund benchmark: 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% BC Aggregate.</i>						
Total Fixed Income	5.8	3.5	3.8	2.5	3.6	5.1
State Street Bond Index	5.8	3.5	3.8	2.5	3.6	
Fixed Income Benchmark	5.8	3.5	3.8	2.5	3.6	5.1
BC U.S. Aggregate Index	6.0	3.9	4.1	2.9	3.8	5.1
BC US TIPS Index	4.4	1.3	2.3	0.5	2.6	4.8
<i>Total fixed income benchmark: 85% B.C Aggregate & 15% TIPS</i>						
Total Equity	(3.4)	(0.3)	7.2	10.4	7.5	6.1
MSCI All Country World Index	(3.2)	(1.0)	6.6	9.2	6.0	4.8
Total Domestic Equity	(1.3)	2.4	9.7	13.0	10.7	7.7
Russell 3000 Index	2.1	4.7	11.1	13.6	11.6	7.4
Large Cap Core	4.0	5.7	11.6	13.8	12.1	7.5
Northern Trust S&P 500 Index	4.0	5.7	11.6			
S&P 500 Index	4.0	5.7	11.7	13.8	12.1	7.4
Large Cap Growth	(1.3)	2.8	11.2	12.4	11.2	8.7
INTECH	4.9	5.8	12.1	12.9	11.1	7.7
Sands Capital Mgt.	(7.7)	(0.4)	9.8	11.5	11.1	9.6
Russell 1000 Growth Index	3.0	6.7	13.1	14.1	12.4	8.8
Large Cap Value	(2.7)	1.5	8.7	13.6	11.2	6.9
LSV	(1.9)	1.8	9.8	14.6	11.6	6.1
Boston Partners	(3.5)	1.2	7.8	12.7	10.8	
Russell 1000 Value Index	2.9	3.5	9.9	13.5	11.4	6.1
Mid Cap	(2.8)	0.2	8.0	11.9	8.9	6.8
Systematic	(3.9)	(2.4)	6.6	10.5	7.1	7.4
TimesSquare	(1.8)	2.7	9.3	13.3	10.6	
Russell Mid Cap Index	0.6	3.6	10.8	14.3	10.9	8.1
Small Cap	(6.2)	0.8	7.2	13.0	8.5	9.1
Eagle	(6.1)	2.3	7.4	12.2	7.5	
Barrow, Hanley	(6.3)	(0.8)	6.9	13.7	9.1	8.8
Russell 2000 Index	(6.7)	(0.3)	7.1	11.1	8.4	6.2
Global Equity	(4.4)	(3.9)	3.4	5.8	3.8	
Aberdeen	(4.0)	(6.1)	1.8	4.3	3.0	
Lazard	(4.9)	(1.8)	5.0	7.2	4.5	
MSCI ACWI Index	(3.7)	(1.5)	6.0	8.6	5.4	
International Equity	(9.1)	(6.2)	1.8	4.8	0.0	2.4
WCM	2.8	2.5				
Allianz NFJ	(20.5)	(14.2)	(4.4)			
Capital International*	(12.1)	(10.0)	(3.0)	(1.3)	(5.8)	
GMO**	(7.7)	(8.5)	(1.6)	(1.6)	(5.1)	
MSCI ACWI ex-US Index	(10.2)	(7.8)	1.2	4.2	0.1	1.9

*Annual performance net of 0.74% mgr. fee.

**Annual performance net of 1.02% mgr. fee

The actual returns of terminated managers are included in the Total Amount and the appropriate category sub-total.

Manager Changes in FY 2016: The EFIB committed \$150 million to Real Estate funds (see Management's Discussion and Analysis pg. 8). Deutsche Bank RREEF America II and UBS Trumbull Property Income Fund were selected. As of June 30, 2016, only 25% (\$37.5 million) of the committed capital had been called (by Deutsche Bank), so no performance is reported above.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF BROKER COMMISSIONS
 FOR THE YEAR ENDED JUNE 30, 2016



Broker Name	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission per Share
J.P. Morgan	2,833,958	\$ 97,496,198	\$ 49,574	\$ 0.02
Credit Suisse	2,597,962	65,502,821	39,049	0.02
Liquidnet, Inc.	2,275,963	81,481,944	29,615	0.01
UBS	2,122,273	65,810,566	27,560	0.01
Goldman Sachs	1,721,189	42,021,423	26,820	0.02
Deutsche Bank	1,850,691	29,443,237	24,042	0.01
Lynch, Jones & Ryan	747,520	14,743,152	22,811	0.03
INSTINET	1,749,632	32,966,305	22,188	0.01
Merrill Lynch	1,733,718	45,215,413	18,889	0.01
ITG	2,983,392	54,119,775	19,408	0.01
Citigroup	2,257,677	18,659,121	17,776	0.01
Morgan Stanley	1,801,253	20,517,943	17,529	0.01
Sanford Bernstein	1,001,035	29,623,276	15,969	0.02
Bank of America	615,592	12,353,294	15,527	0.03
Jefferies	770,209	28,347,450	15,387	0.02
Daiwa	1,780,600	10,496,589	14,733	0.01
Convergex	2,279,140	21,889,005	14,108	0.01
Barclays	468,162	14,905,546	13,971	0.03
Rosenblatt Securities	451,000	31,811,255	13,459	0.03
Carnegie	121,675	7,788,167	11,523	0.10
HSBC	1,095,904	7,053,335	9,303	0.01
Weeden & Co.	423,544	18,976,813	9,074	0.02
Cowen	242,378	11,349,360	8,679	0.04
RBC	237,839	10,265,936	7,218	0.03
Cantor Fitzgerald	328,971	9,790,966	6,737	0.02
SJ Levinson & Sons	468,173	20,678,548	6,671	0.01
CLSA	156,100	4,085,053	6,037	0.04
Bloomberg Tradebook	658,251	9,739,673	6,019	0.01
Knight Trading	176,506	5,198,935	5,657	0.03
Wells Fargo	153,942	4,130,322	5,285	0.03
Guzman	159,300	11,768,544	5,120	0.03
Robert Baird	138,999	5,915,466	5,105	0.04
Other Brokers < \$5,000	2,810,387	106,108,349	82,129	0.02
Total	39,212,935	\$ 950,253,779	\$ 592,972	\$ 0.015

* Equity trading only. No commissions are paid on fixed income trades